Help your employer clients deal with income tax and pension changes ahead

We consider income tax changes for the new tax year and increased pension contributions due under auto enrolment.

Income tax rates and bands for 2018/19

For most of your clients the relevant tax bands and allowances are as follows:

The personal allowance is set to rise from £11,500 in 2017/18 to £11,850 in 2018/19. The basic rate band is £33,500 in 2017/18 and £34,500 in 2018/19. So the threshold at which the 40% band applies increases from £45,000 to £46,350 for those who are entitled to the full personal allowance. The 45% band starts from income of £150,000 as usual.

Where do the employees of your clients live? - Scottish taxpayers

For taxpayers treated as resident in Scotland, it's a different story. In 2017/18, (other than for savings and dividend income, where the £33,500 basic rate band applies), the basic rate income tax band for Scottish residents is £31,500. This means that Scottish taxpayers will generally pay higher rate tax if their income (other than savings and dividend income) exceeds £43,000, or if total income exceeds £45,000.

The Scottish Budget 2018/19 includes new tax rates and also new bands, making a total of five tax bands in all. For 2018/19, the rates and tax bands applicable to Scottish taxpayers on income other than savings and dividend income are as follows:

Scottish Bands £	Band name	Scottish Rate
0 - 2,000	Starter	19%
2,001 - 12,150	Basic	20%
12,151 - 31,580	Intermediate	21%
31,581 - 150,000	Higher	41%
Over 150,000	Top	46%

HMRC have recently issued an updated form P9X which sets out these and other changes which take effect for the new tax year. Visit **goo.gl/DLZSaN**

As devolution progresses there are also changes in sight for Welsh taxpayers, with Welsh rates of income tax in prospect from 6 April 2019.

It is the employees responsibility

You may want to remind your employer clients that they need to nudge employees - Scottish or Welsh - to ensure that HMRC are kept up to date with address details. Changes can be notified, and current details kept by HMRC checked, online via the Personal Tax Account. An individual can sign into their account, or set one up at **goo.gl/LkVoL2** Scottish taxpayers should be issued with an S prefix tax code.

Pensions tax relief complications

The introduction of new tax rates in Scotland causes issues for tax relief on pensions contributions. Visit **goo.gl/ThqTkc**

Need to update your clients on other changes for the new year?

HMRC have produced a useful round up of tax and NI rates and thresholds for the new tax year. These can be found at **goo.gl/91ixD9**

Pensions auto-enrolment: going forwards

You may also be helping your employer clients through the process of increasing minimum contributions into workplace pensions which are introduced from 6 April 2018. The Pensions Regulator (TPR) recommends early preparation, including checking that payroll software will cope with the change, and ensuring employees are aware of their increased pension payments. TPR provides a template letter **goo.gl/nHCUSJ**

Contributions - phasing

All businesses will eventually need to contribute at least 3% of the 'qualifying pensionable earnings' for eligible jobholders. However, to help employers adjust, compulsory contributions are being phased in.

There are total minimum contribution which will need to be paid by employees if the employer does not meet the total minimum contribution. If the employer only pays the employer's minimum contribution, employees' contributions are currently 1% of their salary, before eventually rising to 5%.

Many auto enrolment pension contributions are paid net of basic rate tax so that currently the employees 1% contribution is made up of the employee paying 0.8% plus 0.2% tax relief.

Period	Duration	Employer minimum	Total minimum contribution
1	Employer's staging date to 5 April 2018	1%	2%
2	6 April 2018 to 5 April 2019	2%	5%
6 April 2019 onwards		3%	8%

To find out whether or not the pension contributions are being paid net or gross check with the pensions provider or visit **goo.gl/gWgHqf**

What are qualifying pensionable earnings?

For the majority of pension schemes, and typically those employers that have opted for NEST, earnings include cash elements of pay including overtime and bonuses. However minimum contributions are not calculated on all the earnings. Contributions are payable on earnings between the lower and higher thresholds of £5,876 and £45,000 (£6,032 and £46,350 for 2018/19). The earnings between these amounts are called qualifying earnings.

For those who have offered pension contributions calculated on another basis, via 'certification' using perhaps a basic pay scheme the contributions and percentages are set out below.

Other methods of calculating contributions 'certification'

Certification has been designed as an administrative easement for employers who calculate their pension contributions from the first pound, rather than on qualifying earnings.

The certification method requires that the employer's scheme satisfy at least one of the following for each jobholder:

- at least a 9% contribution of the jobholder's pensionable earnings (including a 4% employer contribution)
- at least an 8% contribution of the jobholder's pensionable earnings (including a 3% employer contribution) provided that the total pensionable earnings of all relevant jobholders to whom this tier applies in aggregate constitutes at least 85% of their total earnings and/or
- at least a 7% contribution of the jobholder's total earnings (including a 3% employer contribution). That is, all earnings must be pensionable.

'Pensionable earnings' means whichever is the higher of the employer's definition of pensionable earnings or basic pay, from pound one. Basic pay is the element that does not vary and so excludes variable elements of pay such as commission, bonuses and overtime. There is also a graduated introduction of pension contributions calculated using these rates.

	5 April 2018	6 April 2018 to 5 April 2019	From 6 April 2019	Pensionable Salary (Basis of % Contributions)
Set 1	2% Employer / 3% Total	3% Employer / 6% Total	4% Employer / 9% Total	Scheme Definition (if >= basic pay from £1)
Set 2	1% Employer / 2% Total	2% Employer / 5% Total	3% Employer / 8% Total	> 85% of Total Pay (scheme average)
Set 3	1% Employer / 2% Total	2% Employer / 5% Total	3% Employer / 7% Total	100% of Total Pay

The information in this table can be found at **goo.gl/N5cQMR**
Keep your clients informed and help them through the process.